MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BAC2634 – FINANCIAL ACCOUNTING & REPORTING II

(All Sections / Groups)

19 OCTOBER 2018
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** pages excluding the cover page with **FOUR (4)** Questions only.

2. Attempt **ALL** questions. The distribution of the marks is shown at the end of each question.

3. Please write all your answers in the answer booklet provided.

QUESTION 1

The summarised accounts of Success Bhd for the year ended 31 December 2017 is as follows:

Statement of Profit or Loss for the year ended 31 December 2017

	RM
Sales	174,400
Cost of sales	(64,000)
	110,400
Operating expenses	(44,000)
	66,400
Interest expense	(8,000)
Loss on disposal of plant	(7,200)
Dividend income	1,600
Interest income	800
Profit before tax	53,600
Income tax	(6,400)
Profit after tax	47,200

Statement of Financial Position as at 31 December

	2017 RM	2016 RM
Non-current assets		
Property, plant and equipment	292,000	201,400
Current assets		
Inventories	4,000	3,200
Trade receivables	12,000	12,800
Interest receivable	320	240
Cash at bank	6,640	3,360
	22,960	19,600
Total assets	314,960	221,000

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Equity		
Ordinary share capital	151,200	105,600
Retained profits	72,560	53,600
Long term liabilities		
Finance lease obligations	51,200	35,720
10% bonds	9,000	3,000
	283,960	197,920
Current liabilities		
Trade payables	9,600	10,080
Interest payables	7,200	2,800
Finance lease obligations	11,000	9,000
Overdraft	3,200	1,200
Total Equity and Liabilities	314,960	221,000

Additional information:

i. Detailed information of property, plant and equipment is as follows:

	RM
Opening balance	201,400
Depreciation charge for the year	(9,600)
Disposal of plant (carrying amount)	(16,000)
Acquisition	116,200
	292,000

ii. A plant was disposed of at a loss of RM7,200.

iii. A new plant was acquired through finance lease of RM20,000 and has not been recorded in the books yet.

iv. Dividends paid was RM28,240.

Required:

Prepare a statement of cash flows for the year ended 31 December 2017 in accordance to MFRS107 *Statement of Cash Flows* **using indirect method.**

(Total: 15 marks)

QUESTION 2

PART A

Kajang Production Bhd had a 3-year proposal to conduct a research of RM2.5 million in a specific field in 2015. This proposal was supported by the local government. On 1 January 2016, Kajang Production Bhd received a lump sum of RM1 million from the government.

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However, the government required Kajang to conduct the research within 3 years and incur an expenditure not more than RM2.5 million for the research. If Kajang is not able to fulfil the condition, it has to repay the grant in full.

Kajang has incurred the following expenditures on the research:

Year	RM
2016	750,000
2017	750,000
2018	1,000,000
Total	2,500,000

Kajang managed to complete the research within 3 years and submitted the results to the government for endorsement.

Required:
Prepare the journal entries to record the above transaction for years 2016, 2017 and 2018 based on MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance.* (7 marks)

PART B

On 1 January 2013, Nona Bhd acquired a twelve-storey building in Putrajaya. The cost of the building was RM1,600,000 and the economic life was estimated to be 30 years. Eleven floors were rented out to tenants and one floor was used by Nona Bhd for administrative purposes.

Beginning 1 January 2018, Nona Bhd used all the eleven floors of the building for production and supply of its goods. The market values of the building were as the following:

Year	RM
1.1.2014	1,900,000
1.1.2016	2,000,000
1.1.2018	3,000,000

Nona Bhd uses the fair value model to measure its investment properties. It is the policy of Nona Bhd. to depreciate its property, plant and equipment using the straight-line method.

Required:
Explain how Nona Bhd records the building and prepare journal entries required in 2013, 2014, 2016 and 2018 in its book. (8 marks)

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PART C

a. Durian King is a supplier of Musang Durian. Adverse weather events can lead to a sudden increase in demand, and Durian King does not always have a sufficient supply of Musang Durian to meet this demand on short notice. Durian King enters into a contract with Durian Queen, a supplier of Musang Durian in another region, such that each party will provide Musang Durian to the other during local adverse weather events, as they are rarely affected at the same time. No other consideration is provided by the parties.

Discuss how to account for this arrangement. (3 marks)

b. ABC, the owner of the famous American black coffee, enters into a franchise arrangement with a customer XYZ to allow XYZ to sell the American black coffee in Kluang. The contract details are as follow:

- ABC is required to supply 10 coffee-making machines to XYZ
- ABC is required to supply the secret ingredients needed every month to make the famous American black coffee.
- XYZ is not allowed to use other ingredients from third parties.
- The contract also includes free after-sale services of the coffee machine.

Discuss how to account for the above contract. (3 marks)

c. Contractor JJ enters into a contract to construct a manufacturing facility for CC Manufacturer. The contract details are as follow:

- The contract price is RM400 million plus a RM40 million award fee if the facility is completed by a specified date.
- The contract is expected to take 2 years to complete.
- JJ has a long history of constructing similar facilities.
- The award fee is binary with only two possible outcomes and is payable in full upon completion of the facility. JJ will receive none of the RM40 million fee if the facility is not completed by the specified date.
- JJ believes, based on its experience, that it is 95% likely that the contract will be completed successfully and in advance of the target date.

How should JJ determine the transaction price? (4 marks)

d. Explain the methods used in measuring the progress towards complete satisfaction of performance obligation.

(4 marks)

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PART D

Mello Bhd borrows funds generally and uses them for the purpose of constructing a qualifying asset. On 1 January 2017, the carrying amount of the qualifying asset, including borrowing costs capitalised previously, is RM30 million. Expenditures incurred for the construction of the qualifying asset during the year are as the following:

	RM million
1 April 2017	20
1 July 2017	50

Mello's outstanding borrowings on 31 December 2017 and the related interest expenses for the year then ended are as the following:

	Outstanding borrowings (weighted average)	Interest expenses
	RM million	RM million
Bank overdrafts (10% per annum)	50	5
Short term loan (8% per annum)	150	12
Long-term bank loan (7% per annum)	300	21
	500	38

Required:
Determine the carrying amount of the qualifying asset as at 31 December 2017 and prepare the journal entry to account for the borrowing costs capitalised in 2017.
(6 marks)

(Total: 35 marks)

QUESTION 3

PART A

a. On 1 January 2014, Daya Bhd acquired a brand costing RM3 million. The economic life was determined as indefinite. On 1 January 2017, Daya Bhd reviewed the economic life and determined it as three years.

Required:
Discuss the accounting treatment in year 2017 in accordance to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* (5 marks)

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b. Hush Bhd had changed its accounting policy on investment property from the cost model to the fair value model during the current year ending 31 December 2017. The cumulative effect of the change in policy for the prior years cannot be determined. On 1 January 2017, the carrying amount of the investment property was RM600,000. The fair value on that date was RM 720,000. On 31 December 2017, the fair value was determined at RM750,000.

Required:
Explain the proper accounting treatment in accordance to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and provide relevant journal entries for the above transactions. (6 marks)

PART B

Describe the indicators for entities to test exploration and evaluation assets for impairment. (5 marks)

PART C

Satu Bhd, has just started its agricultural operations on 1 January 2017. Satu Bhd had provided the following information regarding its livestock management.

Date	Details	
1 January 2017	40 goats, 2 years old	
	Fair value less costs to sell per animal	RM
1 January 2017	2 years old	1,000
31 December 2017	3 years old	1,600
	2 years old	1,100

Required:
Calculate the carrying amount and revenue for year 2017 in accordance to MFRS 141 *Agriculture*.

(10 marks)

PART D

Howa Bhd, a company manufacturing smart phones, started to develop a new model of smart phone to be known as 'Honest' with advanced features that are the first of its kind and is awaited eagerly by the company's loyal customers. The expenditure incurred to 31 December 2017 on the development of 'Honest' was as follows:

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Period from:	Expenditure	RM
1 January 2017 – 1 March 2017	Feasibility study of the product	100,000
1 April 2017	Prototype	120,000
1 May 2017 – 1 August 2017	Market research	30,000
1 September 2017	Further development to refine 'Honest'	250,000
1 December 2017	Production and launch of 'Honest'	200,000

The cost of production and launching of the product of RM200,000 comprises of the cost for staff training RM20,000, marketing and promotional activities RM100,000 and upgrading of existing equipment of RM80,000.

Required:
Determine the amount, if any, of the expenditure listed above to be disclosed in the financial statements of Howa Bhd for the year ended 31 December 2017. Support your answer with explanations and in reference to MFRS 138 *Intangible Assets*.

(9 marks)

(Total: 35 marks)

QUESTION 4

Holiday Entertainment Sdn Bhd (HEC) produces go-carts and other recreational vehicles that feature not only go-cart tracks but miniature golf, batting cages, arcade games and thrill rides as well have increased in popularity.

HEC runs a theme park and has for many years been a successful business, which has traded profitably. The Board of Directors has decided to capitalise on their success and reduced expenditure on new thrill ride, reduced routine maintenance where possible (deciding instead to repair equipment when it broke down) and made a commitment to regularly increase admission prices. Once an admission price is paid, customers can use any of the facilities and rides for free.

Extracts of the last two years Statement of Profit or Loss and Financial Position are shown below:

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Extracts of Statement of Profit or Loss

		2016 (RM)		2017 (RM)
Sales		5,250,000		5,320,000
Less expenses:				
Wages	2,500,000		2,200,000	
Maintenance – routine	80,000		70,000	
Repairs	260,000		320,000	
Directors' salaries	150,000		160,000	
Directors' bonus	15,000		18,000	
Other costs (including depreciation)	1,200,000		1,180,000	
		4,205,000		3,948,000
Net profit		1,045,000		1,372,000

Extracts of Statement of Financial Position

		2016 (RM)		2017 (RM)
Non-current Assets		10,000,000		9,700,000
Current Assets	5,000,000		5;200,000	
Less: Current Liabilities	(2,000,000)	3,000,000	(2,900,000)	2,300,000
Net Assets		13,000,000		12,000,000

Other information

	2016	2017
Dividend paid	RM500,000	RM650,000
Number of visitors	150,000	140,000
Hours lost due to breakdown of rides	9,000 hours	32,000 hours
Average waiting time per ride	20 minutes	30 minutes

All computations are to be rounded up to two decimal points.

Required:

a) Calculate the percentage change of all items in the statement of profit or loss. (2 marks)

b) Calculate the following ratios for 2016 and 2017 for HEC:
   i. Net profit margin (0.5 marks)
   ii. Current ratio (0.5 marks)
   iii. Return on capital employed (0.5 marks)
   iv. Dividend payout ratio (0.5 marks)

c) Assess the financial performance and position of HEC for 2017 using the information given above. (11 marks)

(Total: 15 Marks)

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